STATE EMPLOYEE COMPENSATION INTERIM COMMITTEE

JFAC Room, Statehouse, Boise, Idaho
August 30, 2005

MINUTES

(Subject to Approval by the Committee)

The meeting on August 30, 2005, was called to order at 9:04 a.m. by Co-chair Senator John Andreason. Other committee members present were: Co-chair Representative Bob Schaefer, Senators Joe Stegner, Dick Compton, John McGee, Kate Kelly and Representatives Larry Bradford, Ken Roberts, Rich Wills, Jana Kemp, Anne Pasley-Stuart and Shirley Ringo. Senators Michael Jorgenson and Bert Marley were absent and excused. Staff members present were Matt Freeman, Paige Alan Parker and Charmi Arregui.

Others present on July 29, 2005 included: Ann Heilman and Jay Anderson, Division of Human Resources; Amanda Brown, Service Employees International Union (SEIU); Dona VanTrease, and Vickie Burnet, Idaho Public Employees= Association (IPEA); Jane Buser and Debra Alvord, Boise State University (BSU); Tim O=Leary, Idaho State Police (ISP); Brandon Woolf, State Controller=s Office, EIS; Judie Wright, Division of Financial Management (DFM); Mary Harker, Idaho Transportation Department (ITD); Diana Jansen and M. Jane Dunn, Department of Health & Welfare (DHW); Judi Gregory, Department of Juvenile Corrections (DJC); Alan Winkle, PERSI; and Kent Kunz, Officer of the Governor.

Co-chair Senator Andreason asked the panelists from the prior day to continue their discussion. This was based on pages 24 and 25 from the HR Report, "Recommendations for Discussion/Consideration for the Legislative Interim Committee on Compensation dated August 29, 2005," which included the following:

1. Fund a long-term pay-for-performance system and salary adjustment program such as the Choice Plan developed by ISP.
2. Determine and fund the personnel budget early in the session.
3. Provide flexibility to state agencies to recruit and retain employees through Idaho Code and DHR changes such as:
    a. Shift and Geographic Differential
    b. Equity adjustments
    c. Executive/Professional Expanded/Adjustable Leave Schedules
    d. Bonus Pay (including signing and retention bonuses)
4. Establish separate pay schedules for specific classifications/professions such as nursing, the trades, etc.
5. Re-establish/adjust the "policy" point on the pay schedule to reflect true market rates.
6. Establish policy line budgeting for all positions and/or allow agencies to shift funds into personnel budgets as needed to address compensation challenges specific to the agency and its business need.
7. Adjust Hay point values.

8. Update benchmarks.
9. CPI Adjustments (i.e. to mirror PERSI retiree CPI adjustments). Allow IPOPS (state personnel and payroll system) to adopt additional salary increase codes for equity, market and other adjustments to improve management reporting on pay actions.
10. Limit the amount of personnel funding that can be shifted to OE.
11. Allow agencies to determine the amount awarded for moving expenses (i.e. faculty at the institutions to move all their professional journals, books, research equipment, which adds considerably to the cost of relocating to Idaho).
12. Provide flexibility for employees to retire via a "phased retirement" plan by working with PERSI to design a program.
13. Adjust the Long Term Disability (LTD) maximum which is currently at $3,000 per month (has not changed in 25 years) by working with the Office of Group Insurance. This low LTD rate negatively impacts employees earning over $60,000.
14. Temporary Employees: Benefits B Idaho Code '67-5309A provides that all classified employees of like classification and pay grade allocation shall be treated equally with reference to personnel benefits. If the state of Idaho considers reducing certain benefits for temporary employees, this section of the code would need modification.

Ms. Buser (BSU) stressed the need for a funding commitment to allow the possibility of budgeting for positions at policy. **Senator Andreason** pointed out that funding is not a problem for the panelists to worry about, asking them to present recommendations for a plan and to allow the legislature to deal with funding issues. **Ms. Harker** (ITD) pointed out that funding is different in every agency and that there needs to be some level at which an agency is funded, so that those moneys can address compensation issues where needed, adding that right now that is not possible.

Representative Roberts asked for clarification on item #6 above: "Do you mean that the policy then lays out each individual position within the budget and then those are funded? Can agencies shift those funds?" **Mr. O:Leary** responded that agencies use the current year:s salary run, and that becomes the funding base for the following year:s funding; many employees are below market level and policy level, which is a point within a pay range. Policy point today is about 15%-16.5% behind market. **Mr. O:Leary** continued, stating that would give latitude to an agency director to move people to policy, some new hires being below policy, and rewarding others with valuable experience or those creative employees who make major contributions. An agency could pay some positions above policy, using the market value as a funding base (instead of some meaningless "policy number") to give agency directors the latitude they need to better manage their agencies. **Representative Roberts** pointed out that he thought two different kinds of policy were being discussed, one of which, from a legislative standpoint, was policy set on how government is to operate. The policy being referred to by **Mr. O:Leary** was, perhaps, a pay level of policy, so the committee needs to distinguish between those differences.

Ms. Jansen (DHW) commented that she did market surveys in each area of the state for what DHW considers critical mission positions, meaning registered nurses, licensed practical nurses, pharmacists, clinicians with master:s degrees and social workers. This survey was done through exit interviews, through data in newspapers, and from applicants stating what it would take to come to work for DHW. To bring each of these critical positions mentioned up to that target market rate, it would cost $2 million for just those positions. This totally leaves out everyone else in DHW, and they must be considered as well, but those positions mentioned are critical in order for DHW to provide services in areas of the state where they are needed.

Ms. Harker pointed out that ITD wants more flexibility to shift funds, more of a lump sum budgeting, adding that ITD was not asking for more money, but for allowing ITD to manage within their organization to make decisions to hire and retain employees to conduct their business. If the legislature budgeted at the market level for positions, or the legislature could give agencies lump sum budgets; that would allow flexibility to manage within the agency.

Senator Compton reiterated that bringing employees closer to market would cost millions of dollars going through a systematic process, which was unrealistic, but urged agencies to continue to share their unique, critical problems which will help this committee and the legislature to address issues critical to the state. **Senator Compton** suggested that the committee look at perhaps setting a goal, a benchmark, to address critical occupational situations, and to speed up the hiring process to better compete with the private sector.

Representative Wills asked to give the committee a bit of history as background as a retired ISP employee; he pointed out that prior to the Hay Plan, longevity and valuable experience were considered to be important and were rewarded by assigning a point value, leading to a salary increase. His salary was raised after his first five years because they had raised the starting salary; then the state did away with longevity. So, the first five years of experience meant little in terms of salary, but he was told that would boost his retirement pay, which did not happen, because in 31 years of service, the base starting salary was raised over and over, but not for employees who had been there the longest. There were one-time bonuses given out, but there was not equity in those bonuses, in his opinion, because there wasn't enough money given out by the legislature. **Representative Wills** stated that if the committee recommends salary compensations to some groups of employees, at a percentage perhaps a bit below market rate since the state does offer excellent benefits, it could be at the expense of other state employees who will still remain below policy. **Representative Wills'** recommendation was to bring every state employee up to policy level for a start, without exception, then consider fair market value in some positions that require technical expertise, but he doesn't think that one area should be addressed without consideration for the others.

Senator Stegner referred to item #3 on the list regarding shift and geographic differential, asking if more turmoil might be created if the code were changed to a geographical difference model? **Ms. Harker** (ITD) answered that ITD doesn't really have a geographic pay plan in an area such as Sun Valley/Hailey area because in order to hire employees, ITD has to pay 10% above entry wage for that job in order to fill a position; ITD also asks employees in certain areas to sign an agreement that if that employee moves to another area of the state (not as competitive), their starting wage would not necessarily apply.

Mr. O'Leary pointed out that ISP experiences problems at times trying to hire a trooper for an area of the state where the well-educated spouse cannot find work in their respective field, so that shift and geographic differential would allow an agency the flexibility to pay an employee based either upon the geographical market situation and/or the competition for shift differential. ISP is 5% behind the competition in shift differential, and flexibility would allow agencies to recruit and retain through Idaho Code and DHR rule changes. Even if that might create some competition for those positions, an agency director should maintain equity within that agency, so that turmoil will not occur.

Ms. Buser (BSU) commented on the geographic differential; BSU cannot hire an electrician in Boise, due to the construction industry boom; however, hiring an electrician at ISU is no problem whatsoever. Hiring an employee out of the pay plan then limits what that person can earn in their future, so a geographical differential that goes both ways would really be helpful to agencies.

Senator Compton stated that in the private sector, geographic and economic situations definitely drive the pay plan.

Representative Kemp commented that it had been brought to her attention that the Department of Correction allegedly had not being paying shift differential, stating that this has allegedly been the case for some time; she asked: "If this is true, is that a violation of code? If so, what needs to be done?" She asked for a response to that from the Department of Correction, as soon as possible, so that the committee could take that into consideration as they make recommendations. **Senator Andreason** asked **Ms. Heilman** to work with **Representative Kemp** to obtain that information.

Senator Kelly commented that agencies had asked for more flexibility to distribute funds in many various situations, pointing out that what may be missing is consideration for the role of the Governor=s office in overseeing agencies. Agencies are accountable to the Governor, via DFM, as well as DHR, and not to the legislature, and this needs to be looked at as part of all these discussions; it doesn=t even have to do with how much money an agency needs or is available, it is about the budgeting process, and about accountability of that process.

Representative Roberts asked the panelists, when they talked about market rates or policy, how many times they advertised for a position when multiple qualified applicants applied and vice versa? How many positions in state government are we having a hard time filling and how many are easily filled? He also asked about the Hay Plan and whether it should be readjusted to put more weight on critical positions that are hard to fill or retain? **Mr. O=Leary** answered that at ISP there is a position for a program manager to run an ISP warehouse, needing good customer service skills and efficiency to work with vendors on time deadlines. ISP announced that job, got 87 applications, 44 passed the minimum requirements, ISP interviewed the top 13 people because there was a tie, and 3 were found to be top-quality candidates; however, not one of those 3 could pass their prior drug usage standard. For trooper positions, 367 candidates applied and 17 ended up being hired; this was a very good rate of success, but then ISP has to worry about retention issues.

Ms. Jansen (DHW) stated that her agency has good success with some programs such as Medicaid because employees do not need to be licensed; they get good candidate registers. However, registered nurses is another story; rarely can DHW fill vacancies due to competition. DHW spends about $1 million annually in stipends in the state universities for social workers; if social workers do hire on with DHW, they get burned out due to workload, and retention is a serious problem. Some social workers then go to work for providers, so money is an issue, but burnout can also be an issue. **Ms. Jansen** personally likes the Hay Plan.

Ms. Buser (BSU) stated that BSU has about 650 classified employees, about 600 professional staff employees, and 650 faculty. BSU is challenged in hiring for trade positions, such as custodians, of which there are 70-80 across campus. The starting wage was $6.69 per hour, but was raised to $8 per hour to compete with city, county and federal government wages. Registers of candidates may be full, but finding competent employees is key.

Ms. Harker (ITD) stated that her agency has many professional level positions and that is where there is the most difficulty getting qualified candidates; they have the same people putting in applications over and over again. Port of Entry inspectors become difficult because hundreds of applicants apply and few can pass the drug usage standard. Senior level transportation technicians have the highest turnover rate at ITD; some applicants don't have a Commercial Drivers License and some who are hired don't pass random drug tests after they are hired. Managers spend inordinate amounts of time reviewing applications, interviewing and trying to find competent applicants.

Representative Roberts summarized that the panelists had said that there is difficulty in hiring and retaining employees, but that by adjusting the Hay Plan in different ways and funding, it could be beneficial, asking if that was correct? **Mr. O'Leary** emphasized that the Hay Plan is a ranking tool that assigns a point value to different positions. The problem is, in his opinion, assigning a dollar value to those Hay Plan points. **Representative Roberts** asked if the panelists agreed that the Hay Plan is still okay, and if the problem was a combination of both dollars that are attached to Hay Plan points and maybe the Hay Plan ranking? **Ms. Jansen** (DHW) explained that a nurse here in Boise has the same number of Hay Plan points as a nurse in Oklahoma; that salary range is not the problem, but rather it's the money to pay that nurse what it would take to come to work at DHW in Boise or Lewiston, which would take a competitive market wage.

Senator Andreason gave some history on the Hay Plan and how the state adopted it, pointing out that it had been reworked many times over the years, constantly trying to keep it up to market. Employees were paid according to wage scales on a horizontal line over time. If an employee changed jobs, they would move up that ladder, receiving higher point factors. Then an interim committee was established to study the Hay Plan and that horizontal wage scale was done away with, doing away with increases for experience and longevity.

Representative Roberts asked if reevaluations of market can be ongoing to see if positions are at market, and if adjustments can be made on the Hay Plan without legislative action? **Senator Andreason** answered: "Yes, according to the design of the Hay Plan, but it has to be administered." **Representative Wills** pointed out that each time the Hay Plan is adjusted (in points) for a certain group (say nurses or engineers) and more money is allocated to an agency to hire critical positions, compression occurs for the people in those same positions who are not new hires. Compression occurs because there is no additional budget money to fund continuing salary increases or to maintain equity within agencies. **Representative Roberts** agreed that the budget process needs to be kept in mind, as well as possible statute changes that could allow more flexibility, and reiterated that salary savings also needed to be discussed further.

Representative Wills referred to item #12, page 25, in the HR Report Recommendations, stating that this item had not been discussed, asking the panel for clarification on that item. **Ms. Buser** (BSU) said that a faculty phased retirement program at BSU had been implemented this past year because one-third of their faculty were ready to retire, members who often taught upper division classes. This group of faculty members teach more classes, so retirees were offered an opportunity to retire, but to come in and teach fewer classes or to focus on research, in order to retain some of these very valuable faculty members with great expertise. They retire, but they come back to much less work for half of their previous salary so they can draw their full retirement, if they meet certain requirements. **Representative Wills** asked if a similar program were made available to state employees, could they work more than the current limit of 19.5 hours per week, since PERSI rules currently limit those hours? **Ms. Buser** answered that BSU's program requires that retired faculty work 49%, always below that 20 hours per week, in order to collect their retirement. They would never work enough to be benefit-eligible.

Senator Kelly commented that BSU has a phased retirement program, as do judges, and asked why state agencies were not doing this? **Ms. Buser** answered that there are IRS regulations that need to be carefully examined; PERSI could be consulted on this recommendation. **Mr. Winkle** (PERSI) answered that under current rules an individual with a 90-day break in service can return to work for the same employer at below 20 hours per week, affirming that this option is currently available. **Mr. Winkle** added that IRS has a committee studying this and draft rules have been issued; return to work is another issue being explored by some legislators.

Mr. O'Leary (ISP**)** referred to item #3(d), page 24, of the HR Report Recommendations regarding bonus pay, stating that a $1,000 limit does not adequately reward truly outstanding performance, in his opinion, comparing this to the private sector where it is not uncommon for a bonus to equal, double or triple an employee's monthly salary. **Mr. O'Leary** asked for flexibility for agencies to truly reward outstanding performance.

Ms. Buser (BSU) added that flexibility to give signing or retention bonuses could be very helpful as a management tool to hire and retain valuable employees, or to hire candidates for critical positions. **Mr. O'Leary** (ISP) pointed out that it would be far less expensive to retain people through retention bonuses than to rehire and retrain a new employee for that position.

Representative Kemp asked if **Coach Dan Hawkins** was paid by BSU through its funding with regard to bonuses? **Ms. Buser** was not familiar with the contract for **Coach Hawkins**, adding that his contract is worked out with the general counsel and his agent, and that it involves media money also.

Representative Ringo expressed her hope that more energy will be put into increased pay for state employees, asking the panel if it would be of more value to try to eliminate large gaps in salaries between state wage and competitive market rate or to reward outstanding employees with bonuses, if one had to make that choice? **Ms. Buser** stated that she would prefer raising an employee's ongoing base salary rate, if she had to choose one.

Mr. O'Leary (ISP) referred to item #4, page 25, of the HR Report asking for more flexibility to allow DHR to establish separate pay schedules for specific classifications/professions such as nursing, the trades, etc. He said Item #5 should be the benchmark by which decisions are made (i.e. re-establish/adjust the 'policy' point on the pay schedule to reflect true market rates).

Item #8 referred to updating benchmarks, which has been done for ISP, and needs to be done periodically, in **Mr. O'Leary's** opinion. **Representative Roberts** asked what it would take to change the benchmarks? **Mr. O'Leary** answered that it would take DHR's approval, adding that DHR has worked with ISP on their Choice Plan.

Senator Stegner asked what this committee's role was in the larger picture and what is the legislature's role with regard to updating benchmarks? **Mr. O'Leary** commented that he looked to this committee and the legislature as the policy group, adding that implementation is handled by the executive branch, but if the committee reviewed benchmarks and recommended that they be updated regularly, then the legislature could possibly make updating benchmarks part of the overall compensation plan through legislative intent. **Senator Stegner** asked **Ms. Heilman** if legislative direction would be needed to update benchmarks? **Ms. Heilman** responded: "No; however, the essence of this whole issue is money." To review all benchmarks would be extremely expensive. In 1998 the personnel commission asked for $50,000 to have the Hay experts assist DHR with this task, and this was rejected by the legislature. **Ms. Heilman** stated that DHR would be happy to go forward with this if the committee sees this as a priority, pointing out that it would require DFM's approval for implementation of any refactored classes, and then money would have to be available to do that.

Representative Kemp commented that her observation was that there is extraordinary frustration over the issue of employee compensation growing from lack of ability to fund a plan, adding that if there is not a plan in place, that it will never get funded. **Representative Kemp** suggested, as the committee works through problem solving issues, to keep in mind recommendations for a plan and for funding that plan, expediting the process of recommendations coming from the committee. **Senator Andreason** affirmed that one of the jobs of this committee was to come up with a pay plan.

Ms. Harker (ITD) stated that if point values were not dealt with first and maintained, assuring a firm foundation for that pay plan, it would be like building a house on top of a crumbling foundation. She expressed frustration when she hears that it's going to be expensive because this is why the situation is where it currently is; the foundation of those point values must be strengthened first, before going further.

Representative Ringo commented that focusing compensation on market rate would take funding, and inquired about the state surplus on hand; she wondered if the committee could make recommendations to use some of that state surplus to move compensation toward market. She also suggested that the legislature avoid putting this issue at the end of their agenda during session, as they did last year.

Senator Andreason referred back the HR Report's Recommendations, item 9 on page 25. **Mr. O'Leary** mentioned that this item was not one that need be addressed by the committee or the legislature, adding that it should be reflected in the overall philosophy coming from a policy body. Item 10 suggests that limits be placed on the amount of personnel funding that can be shifted to operating expenses, and **Mr. O'Leary** added that, in his opinion, no more than one-quarter of one percent be allowed to be shifted. Several members of the committee commented on the Department of Correction's practice for 23 years of shifting millions of personnel dollars to pay for their increasing expenses.

Senator Stegner asked if this recommendation was in conflict rather dramatically with **Mr. Winder's** request for flexibility at ITD, adding that there should be flexibility or no flexibility, in his opinion. **Mr. O'Leary** clarified that item 10 did conflict with **Mr. Winder's** request for ITD, explaining that what is good for ISP isn't necessarily good for ITD. **Senator Compton** agreed that it can't be both ways, flexible but with limits, adding that management should be trusted to make decisions to meet the needs for their agency.

Representative Kemp asked the philosophical question of how much micro-managing the legislature and the Governor's office should do with regard to shifting budgeted funds in agencies, believing that it warranted further discussion, especially after testimony given by Department of Correction and DHW. **Representative Kemp** commented that if this committee were going into that discussion, it should be on their table of decision-making about how far this legislative body wants to go into the future to leave an imprint on how the state budget is managed, suggesting that it would require much more committee time to be addressed.

Mr. O'Leary referred to item 11 of the HR Report Recommendations, pointing out that some agencies are not able to hire faculty, engineers or physicians because they cannot compete with organizations who are willing to pay moving expenses to hire quality candidates for very important positions in the state; this issue can result in the loss of the best candidate for the job. **Representative Roberts** asked if a moving expense was different from a signing bonus and **Ms. Buser** (BSU) answered that they were two very different issues.

Flexibility (item 12) had been discussed at length, so item 13 was addressed, the point being that employees earning over $60,000 are negatively impacted by the long-term disability maximum currently at $3,000 per month (which has not changed for 25 years). Item 14, looking at temporary employees' benefits, was brought up next, due to the fact that the cost of benefits for part-time employees as a percentage of their compensation package is quite significant. It could be cost-effective to adjust this compensation package, but it might also adversely affect jobs such as dispatchers who respond to emergency calls. Changing this would affect the current policy in the state. **Ms. Jansen** (DHW) also pointed out that changing compensation for part-time employees might result in those employees qualifying for Medicaid, so she cautioned that a financial burden in one area might simply cause a shift and become a burden elsewhere within the same system.

Representative Kemp made a motion that the panel of human resource directors draft language for code change or policy change, which may or may not be based on the 14 items in the HR Report's Recommendations, to be presented to the committee about five days prior to the next meeting of this committee. **Senator McGee** seconded the motion. **Senator Kelly** commented that she hoped the committee was not "getting the cart before the horse" in asking DHR and agencies to do a lot of work before the committee had a chance to talk about issues in depth, and before the committee decided what recommendations they may want to make or focus upon, suggesting that the vote on the motion be at a later time. **Senator McGee** agreed with **Senator Kelly** that after the small-group discussions later in the day might be a more appropriate time to consider this motion, possibly without a time deadline on the motion. **Representative Roberts** agreed that the motion might be premature, suggesting that more discussion was necessary. **Senator Stegner** opposed the motion based on the fact that he didn't know if it was appropriate for the committee to ask that human resource directors should be drafting language for possible legislation, believing that **Ms. Heilman** had been asked to be involved in that process, and adding that she was probably the appropriate person to be involved in that. **Senator Stegner** expressed appreciation to the panelists for volunteering to be involved in preparing language for possible legislation, but affirmed his good faith in Legislative Services to draft legislation for the committee. **Representative Kemp** withdrew her motion. **Senator Andreason** asked the panelists if they would be prepared to provide recommendations at a later time and the panelists agreed to that.

Senator Andreason asked **Ms. Heilman** for further explanation of the Hay System. **Ms. Heilman** said that this was an area that often leads to confusion, pointing out that at the first meeting a one-page handout was given to the committee, and she again referred to that. The Hay System is the way the state of Idaho decided that jobs would be assessed, so that regardless of the person in that job, how that job would be valued, in comparison to another job. Each job when created is described thoroughly in terms of duties, responsibilities, level of skill and knowledge required, etc. and the three main factors were: (1) know-how or what knowledge is needed to do a job; (2) what kind of problem solving skills are needed to perform a job; (3) accountability, or what level of responsibility a job has. These factors are totaled up, and that total number of points is assigned to each position. A range of points is in Idaho Code, and that range is assigned a pay level, using the alphabet, so the lowest skilled jobs would be in pay grade A, and a salary range is assigned to that. The state=s highest paying jobs are higher in the alphabet. The Hay System provides a "skeleton" for internal equity with no price tags attached. Every year when the legislature determines what the salary scale will be that year, that is how a cash value gets assigned. The width of each pay range has been a legislative decision, with the Governor=s recommendation. The Hay System is used globally, is very respected, and **Ms. Heilman** does not believe that the system itself is at issue, but did suggest that the committee consider whether that "skeleton" needs to be duplicated to address market, since right now there is only one structure in state government.

Senator Andreason stated that before the Hay System was in place in Idaho, agencies paid different salaries than a similar position in another agency. **Ms. Heilman** added that the Hay System has not prevented that; there is equity in that a job will pay within a range and is funded either on the incumbent=s rate, or entry plus 5%, as the budget manuals dictate. There is pay equity, relatively, but because agencies are funded so differently and can make different choices with their funding, there is a problem with "haves and have-nots." **Ms. Heilman** agreed to give the committee recommendations to address this issue of the "haves and have-nots." The pay ranges are huge, and are 75% to 125% of the mid-point that is supposed to be policy, or market, but is not at market, according to **Ms. Heilman**.

Senator Kelly commented that in 1998 there was a review of the Hay System by Hay experts, and they made 11 recommendations that were not acted upon by the legislature. Do those recommendations have any relevancy seven years later? **Ms. Heilman** answered that most of those recommendations were still relevant and that some have actually been adopted. **Senator Kelly** asked if those recommendations were something for the committee to consider; **Ms. Heilman** agreed to provide to the committee any information they might find helpful.

Senator Compton asked if **Ms. Heilman** was prepared to talk about the strategic goal to get the state to market? **Ms. Heilman** said that the committee has heard over and over again about market and funding, but what gets lost in the discussion is the fact that all jobs are not 15%

behind market; some jobs are 45% behind and some jobs are just fine. There is not a mass exodus of state employees. The state has not been able to meet the legislative goal of market average rate for all the jobs in one pay grade, and **Ms. Heilman** suggested that the committee might ask why that should be done? **Ms. Heilman** explained that when that policy was developed, it was the thought (going back to the Hay System) that the fewer Hay points that a job was assigned, that would be what it would be worth in the market. However, everyone in the labor and construction business in Idaho currently is in tremendous demand, and those positions may point factor out in the Hay System at level D, E or F; someone who has more Hay points, with more skill and education required to do their job, perhaps an IT specialist or a support person, may have a higher pay rate, yet the demand for those positions may not be as great as in the construction industry, currently. Her point was that the state probably needs to refine the main target to be much more market oriented, rather than the average of all jobs within a pay grade. If the committee then wants to focus on the market, DHR can give suggestions on how close to the market that focus should possibly be, and DHR can get implementation costs. Does the state want to be at 100% of the market for nurses, or does the state want to aim for 90% of the market? DHR agreed to give the committee strategies and price tags.

Representative Roberts stated that once the total points are available for a variety of jobs, a salary structure is typically established by plotting a salary survey market data on the vertical access. If there is a shortage, such as nurses or engineers, then the method is in the Hay System to plot that job where it should be within that "skeleton" or salary range. If hiring or retention is the problem, that is because the survey market data has not been updated, and **Representative Roberts** thought that the Hay System is fine, but those critical job situations must be brought to market level or to the competitive level being paid, believing that this is the biggest issue. DHR needs to work on those positions in greatest need and to pay those individuals more, in his opinion. **Ms. Heilman** stated that the structure was not the issue, using DHW as an example. If DHW had $2-3 million more to pay their nurses' salaries at the top of their pay grade, they could be given a temporary assignment to a higher pay grade, but the money is needed in order to do that, and that money needs to be ongoing. Very compelling market data must be given to the Governor and DFM that says what the market is for extremely competitive jobs, and funding for those specific jobs must be increased. **Ms. Heilman** added that occupational based market strategies could move the state forward, adding that there is simply not enough money to raise salaries for all state employees.

Senator Andreason commented that, even though an employee's position might not be a highly competitive one, every employee experiences cost-of-living increases; that issue either gets addressed or ignored. A state employee with no salary compensation makes less each year; he asked **Ms. Heilman** how she would respond to that? **Ms. Heilman** answered that experts say that the market will cover cost-of-living increases; positions receiving a small increase annually probably would cover that cost-of-living. A state employee who performs their job well should keep up with the market in total compensation, in pay and benefits combined; if an employee does an extraordinary job, that employee could make more than the market. The idea to fund some sort of plan to get all state employees closer to market requires that the pay structure be revisited and that money be put into that structure, keeping employees closer to market every year. **Representative Ringo** mentioned that some state employees make poverty-level wages, expressing hope that the state will continue to take pride in making sure that digression does not occur. **Ms. Heilman** answered that there is social policy that the legislature declares, and part of that social policy is providing a very rich compensation package for very low-skilled employees. If the legislature wants policy to reflect that employees get a cost-of-living adjustment, that would be a separate policy that may get funded, aside from merit, which is something the federal government does annually for their employees. Another suggestion was when the legislature annually approves the pay schedule, that the entire pay schedule move 2%, which would be more related to market than cost-of-living, but it would ensure that every employee is given something for cost-of-living increases. **Representative Ringo** expressed appreciation for the state=s benefit package, believing that benefits are an important part of the state=s compensation package.

The committee broke into two groups to discuss issues more in depth, agreeing to come back to the committee with recommendations for target topics. No tape recordings or minutes were taken during these smaller work-group meetings due to a lack of a quorum. The work groups were divided as follows: Work Group #1 included: Senator Andreason, Senator Stegner, Senator McGee, Representative Wills, Representative Kemp and Representative Ringo. Work Group #2 included: Representative Bob Schaefer, Senator Compton, Senator Kelly, Representative Bradford, Representative Roberts, and Representative Pasley-Stuart.

The whole committee reconvened, and **Mr. Freeman** compiled the following list of focus items which had been presented by both work groups:

1. Proposed legislation from Interim Committee should be rolled up into an omnibus bill to the extent possible.
2. As the committee discusses compensation policy and funding, state employees and public school teachers should be considered separately.
3. *Agenda Item*: The Division of Human Resources offered to present the pay grade schedule with specific examples of occupations that are currently below market. What happens when the payline is moved? What is the impact on occupations over or under market? This presentation should include recommendations on addressing market funding issues.
4. *Agenda Item*: The committee would like DFM, the Governor=s office, JFAC co-chairs and department directors to address whether moneys appropriated for personnel costs should only be used for personnel costs (i.e. personnel cost money could not be moved down to cover operating expenses or capital outlay).
5. *Agenda Item*: Should the state have a different compensation/benefits package for different skill-level employees (e.g. part-time and temporary employees are now eligible for full benefits)? *The Division of Human Resources will prepare an example of a tiered compensation plan.*
6. Idaho Code '67-5302(15) defines Aholiday@ for state employment purposes. This definition should be amended to clarify that Aholiday@ shall mean up to ten (10) hours of exemption from work granted to employees during which said employees shall be compensated as if they actually worked. Currently, there is a discrepancy in Idaho Code regarding holiday pay in that some employees get 100 hours of paid holiday time off per year (10 hour shifts) and other employees get 80 hours (8 hour shifts).
7. Increase bonus cap from $1,000 to $10,000, remove Aexcellent performance@ from bonus eligibility, and allow department directors, rather than the Board of Examiners, to approve exceptions to the bonus cap. Furthermore, this bonus could be used for recruitment,

retention and recognition of employee performance. *This change would require amending Idaho Code '67-5309C(b)(iii).*

8. Codify the payment of moving expenses and move approval thereof from the board of examiners to agency heads.

9. *Agenda Item*: Discuss guidelines and funding options for bonuses (authorized under Idaho Code '67-5309C(b)(iv)) which may be granted Abased on suggestions or recommendations made by the employee which resulted in taxpayer savings as a result of cost savings or greater efficiencies to the department or to the state of Idaho in excess of the amount of the bonus.@ *The Division of Human Resources is researching how other states conduct similar programs.*

10. *Agenda Item*: History, role and function of the Board of Examiners.

11. Adjust the Long-Term Disability maximum currently at $3,000. The Department of Administration is comparing other states pay and will provide an estimated fiscal impact.

12. Legislators should know as policymakers the actual cost of doing business. As a Currently, budgets do not reflect reality because the state=s entire compensation system isn=t being adequately funded. result, agencies are using salary savings, temporary merit increases and bonuses as a means of going around the budget process in an effort to try to address the shortfall. If positions were budgeted <u>and</u> funded at a certain percentage (90% was used as an example), then agencies would have the money they need to address their compensation needs and the legislature and the governor would know the true cost of doing business. *Staff has asked the Division of Human Resources to draft relevant legislative language and run a model based on this proposal in order to get an estimate of the fiscal impact.*

Discussion took place on the above focus items, and the meeting was adjourned at 4:04 p.m. The next meeting will be held on October 25, 2005.